

RECOGNIZING GAPS IN MARKET INTELLIGENCE*

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Wouldn't it be presumptuous of me to stand here in front of a professional audience like this to present a paper specifying Gaps in Market Intelligence? What could I say that you would not already know?

An old man died in the Johnstown Flood. The greatest event in the old man's life, judging by the story which unfolds, must have been its abrupt termination in that catastrophic disaster. Because when he got to Heaven he was forever pestering St. Peter to put him on the evening cultural program so he could relate to everyone the terror and magnificence of the Johnstown Flood. St. Peter was not enthused. But the old man persisted. Being constantly harassed and near the end of his patience St. Peter finally told the old man, "All right. You can be on the program thursday night. Tell everybody about the Johnstown Flood. But remember one thing: Noah is in the audience."

That's my trouble here today. My condition in fact is even worse. There is not just one Noah in the audience. Everyone is Noah.

If discretion is indeed the better part of valor then in present circumstances it certainly would be wise for me to amend my assignment in some modest but significant degree.

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It is inane for me to tell you about gaps in market intelligence. You know more about gaps in market intelligence than I do. But it might be productive if I share with you some ideas about how to recognize gaps in market intelligence. If the plan works, then you may suspect there are gaps in market intelligence we hadn't thought about before, or you might anticipate gaps that will occur but haven't happened yet.

This does not mean I am here to render one of those dazzling displays of intellectual virtuosity at which all professors are known to be accomplished. This is so mainly because that is a misleading notion. I know very few professors who are able to display anything even remotely similar to intellectual virtuosity, and I am among the majority. I do hope though that, with luck, something might be accomplished nevertheless.

Most of what I have to say will center around propositions about desirable market performance. But before I am confronted by the need to use some notes, let me review some of the shortfalls in market intelligence that do occur to me. These may then be used by you as vantage points from which to consider the propositions that follow.

1. In order that you might know with certainty where some of my weaknesses lie, I cannot resist beginning with mention of a shortfall that has impressed me deeply and will not impress you at all. It should not even be mentioned, as a matter of fact, because it is professionally unbecoming for me to raise the issue and for you to consider it. It is always considered bad professional form to regard seriously a matter which is widely known to be frivolous.

It has to do with the matter of market intelligence in the purchase

and sale of horses. This should strike you as hilariously funny because there are, after all, only about 8 million horses in the country and, although that population is growing rapidly, most of these horses are sold by professionals and bought by the rankest amateurs who fail even to know when the grass turns green in April that it will turn brown again in October.

Also, it has been my observation that the better the performance in most livestock marketing channels the more organized transactions there are and the fewer the number of traders. For example there are relatively few traders operating in slaughter cattle but relatively more engaged in the purchase and sale of non-slaughter cattle. I take it as circumstantially evident that a comparative shortfall of non-slaughter market information gives traders somewhat more latitude in which to operate.

Now to pursue the analogy, I am impressed by the number of horse traders, and by the modest prosperity enjoyed by even the smallest among them, and those least endowed with talent for the calling. I am also impressed by the scarcity of organized markets, and by the absence in those markets of operating characteristics I had come to take as given in a long association with slaughter livestock markets.

In short, to give proper and definitive end to a frivolous outburst, there is to my knowledge, with the possible exception of horses for slaughter, no Federally-sponsored market information at all. This is a perfect record that should not be blemished. If anyone comes off the worse for this oversight it is mostly children anyway, and it is well known that their principal function in life is to grow and learn

and profit by their mistakes. Let us turn now to matters of more serious consequence.

2. It should be acknowledged at the outset that in public charges of this sort there exists, so consistently as to be expected by even the most retarded minds, a grave discrepancy between the magnitude of the challenge to be met and the means provided to meet it. In a word, gaps occur in market intelligence when the job is too big for the available money and manpower. When this is so, attempts to identify specific failures are either an exercise in selecting priorities or an exercise in futility. Now let us examine specifics.

3. The task of Federal Market News Reporting was both overdue when it was inaugurated and, seen in retrospect, comparatively easy to accomplish at a time when perhaps 90 percent of all slaughter livestock passed through less than a hundred terminal markets. Accurate public reports of confirmed sales have had a dramatic and measurable impact in improving conduct and performance in livestock marketing. Terminals previously accused of prostituting market information came to regard themselves as landmarks of virginal stature in the matter of "setting prices" which presumably were followed, and accusedly prostituted in turn, by the emerging country market system. In retrospect it can be seen that what gave terminals their stature as a source of price and market information was not their significance as terminals, but their importance as the place where the Federal Market News Service happened to be located.

4. But the decline in the share of terminal market receipts and the decentralization of livestock marketing has so greatly increased the magnitude and complexity of the reporting task, and overburdened the

available staff, that it must be acknowledged the "quality" of the job has deteriorated. As measures of waning quality I include (a) the necessary decline in comprehensiveness of coverage, (b) the necessity of reporting unwitnessed and unconfirmed sales, (c) the often less-than-blissful marriage of State and Federal reporting staffs, and (d) the re-emergent popularity of privately-sponsored market news broadcasting.

5. The matter now is further complicated by the rampant growth of direct marketing between producer and processor. That this development is a natural consequence of processor specialization and producer concentration is easy to understand, however unenthusiastically it may be received by those whose peace of mind is jeopardized. Those would include terminal markets, country markets, and market news reporters. Direct marketing carries with it a host of complications which serve to further magnify the reporting task and to give it essentially impossible dimensions, and I am sure this thought has occurred to many marketing participants who find in it an understandable source of satisfaction. Direct marketing is total decentralization. It often involves carcass weight and grade pricing. It introduces innumerable variables to manipulate; grade, dressing percent, carcass yield, and weighing conditions, to name a few. It is also frequently associated with integration and contract production.

Knowledgeable people have told me that emergent gaps in market intelligence in direct marketing might best be corrected by (a) more carcass price reporting to accompany live price reporting and (b) a method of reporting a "standard transaction", standardized in the sense of fixing the many variables at some modal level from which recipients can interpret and adjust in accordance with their individual circumstances.

On the matter of progress in these proposals I am uninformed, but in my uninformed judgment it seems that lack of progress here is synonymous with gaps in market intelligence.

6. I suppose it is as appropriate at this point as at any to mention that anyone with a reasonably attentive ear continually hears stories about price manipulation. In reliability these stories rank about on a par with gossip. They usually relate to some purported accomplishment in the wholesale meat trade, and almost always the best stories are reasonably confined to those obscure corners of the trade where the market is always thin. They are either unprovable or, to my knowledge, have not been proven. But they sound plausible. They sound very like they would work. Are there gaps in market intelligence here? I should like very much to know.

I would like now to conclude this little summary of sins in order to get on with those propositions about market performance which I promised would be the main thrust of my remarks. By way of concluding this section therefore, I would like to inquire about three issues which arouse my curiosity and I hope have already aroused your serious professional concern.

7. Meat quality-altering devices have been much talked about. Nowadays it is increasingly easy to find machines in packing plants that commendably accomplish this end with enough success to be thought provoking. Indeed as I stand and watch one of these machines in action it puts me in an uncommonly thoughtful mood. For all practical purposes, what I am seeing accomplished in minutes in the packing plant is the same alteration that requires months in the feedlot. Advocates claim they can accomplish changes equivalent to at least one quality grade

and I have sampled the results and I believe them. Even the lowest grades achieve a minimally table-ready acceptability, as is attested by the multitudes who patronize the growing chains of fast-food steakhouses.

What makes me thoughtful are the questions that crowd upon me demanding answers: Is creating an acceptable product form becoming a function of the packing plant instead of the feedlot? If the packing plant can perform, in reasonable facsimile, in minutes what requires months in the feedlot, the cost-saving is enormous and who can doubt that this is an irresistible trend of the future? What happens to the feedlots and to the demand for feed grains? If grass-fed cattle will do, what happens to the regional distribution of cattle production? If Good or Standard or Utility will come to be accepted in a mass market on a par with what used to be expected of Choice, what happens to the meaning and usefulness of established grades? If the meaning of grades is obscured or perverted, what happens to the ability of a market news service to provide meaningful market intelligence?

8. My second curiosity is about box beef. Just as quality-altering machines represent a saving in the marketing process, so does box beef. The only difference between the two is that the first remains sufficiently exotic that its implications can for awhile still be denied, but this is not possible with box beef. It represents in large measure the saving from central cutting that has been forecast for years. It saves retailers money. It streamlines the process. It threatens peace of mind among vested interests. It shows all the reliable signs of irreversible progress. But it is not growing rapidly because socially concerned provisioners strive anxiously to save money for retailers. It grows because it is profitable, and it is profitable for at least three

reasons. First, as we have noted, it reduces costs. But secondly, and much more important, it represents successful product differentiation, which almost always is found to be associated with improved profits. And, as is the case with most successful differentiation of cordwood products, it is not necessarily the product itself that is differentiated, but the services that surround it. Finally, box beef does obscure product standardization and the usefulness of the standardizing grades. This in itself can introduce enough confusion into market intelligence as to be a rewarding source of profit. What I am curious about is whether the Market News Service is sensitively concerned about the gaps in market intelligence that are an intended and premeditated incentive for this development. If so, what plans does the Service have for maintaining its traditional relevance in these ingeniously altered and complicated circumstances?

9. My last curiosity I have seldom heard discussed. But it would disappoint me if it should strike you as remarkably original. I like to suppose that my public servants have long been aware of the problem, have pondered it solemnly, have weighed alternative solutions and are prepared with some plans. It has to do with providing market intelligence for the consumer.

Why is there not such a service? When the Federal Market News Service was inaugurated in, I believe, 1914, the justification was straightforward. Many, small, unsophisticated individuals were disadvantaged in a market place characterized by buyers comparatively large, few in number, well-informed, and thereby powerful. It was seen that market information was a public good and the provision of market

intelligence was a public responsibility. For over sixty years now the Federal Market News Service has functioned in the confident conviction of the truth of this.

But if it has no plans for providing that same kind of information to consumers, the Service has not been particularly imaginative about the implications of this truth. Today, unlike producers, there is no noticeable trend among consumers toward concentration and economies of scale in large purchases. Like producers of old, consumers today are many, individualistic, unorganized, small, unsophisticated, and powerless. Like producers, consumers daily enter a market characterized by sellers who generally are large, few in number, well-informed, and thereby powerful. Hence the justifying argument is precisely the same but, compared to the year 1914, it is even more compelling for several reasons: It is known that public provision of market intelligence, under the circumstances in which it has been employed, has had a measurable impact on improved market performance. The circumstances are now precisely the same, but on the consumer side of the market. Everyone with purchasing power is a consumer, and hence enjoys a unanimity not found elsewhere in the diverse lives of these selfsame citizens. Unquestionably, this commanding commonality among the citizenry is why we always address our welfare considerations to a Consumer Oriented Society. Finally, in the matter of providing such a service, the legitimacy of which was long ago acknowledged, there is now an agency with sixty years experience in its provision.

To me it seems reasonable that in this consumer context the Federal Market News Service has an enormous and yet unfulfilled role to play. Does it not seem reasonable to you also?

All the issues I have raised fit into a pattern. And the pattern should emerge as we go through some slides to illustrate the progress of the argument.

I will begin with some propositions that will come as no surprising novelty to anyone. And when I have finished, if we are successful, we may have provided a focal point for some of the discussions which are scheduled to follow.*

*In the original presentation, the following material was presented as transparencies on an overhead projector. Not only were they sequential in order, but designed for use in various combinations of overlays. Hence, although each of the following illustrations was first presented individually it was for introductory purposes only. Their sense is to be found principally in the overlay patterns. Extemporaneous commentary accompanied the transparency presentation.

A PLACE TO BEGIN:

1. PEOPLE HAVE LIMITLESS WANTS.
2. BUT THERE ARE ONLY LIMITED MEANS TO MEET UNLIMITED WANTS.
3. SO PEOPLE ASSIGN VALUE TO LIMITED MEANS BY COMPETING AMONG THEMSELVES TO SATISFY LIMITLESS WANTS.
4. MARKETS BECOME DEVICES FOR ALLOCATING SCARCE MEANS AND RECORDING PRICES ASSIGNED TO THEM.
5. HENCE $VALUE = USEFULNESS + SCARCITY$.

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QUESTION: DOES $PRICE = VALUE$?

ALL LIMITED MEANS CAN BE CLASSED INTO FOUR CATEGORIES

LAND

LABOR

CAPITAL

MANAGEMENT

AND FROM THESE FOUR LIMITED MEANS COME ALL PRODUCTION OF
ALL GOODS AND SERVICES, OF WHATEVER KIND AND DESCRIPTION.

STEEL

AIRPLANES

HAIRCUTS

SKYSCRAPERS

CATTLE

EVERYTHING

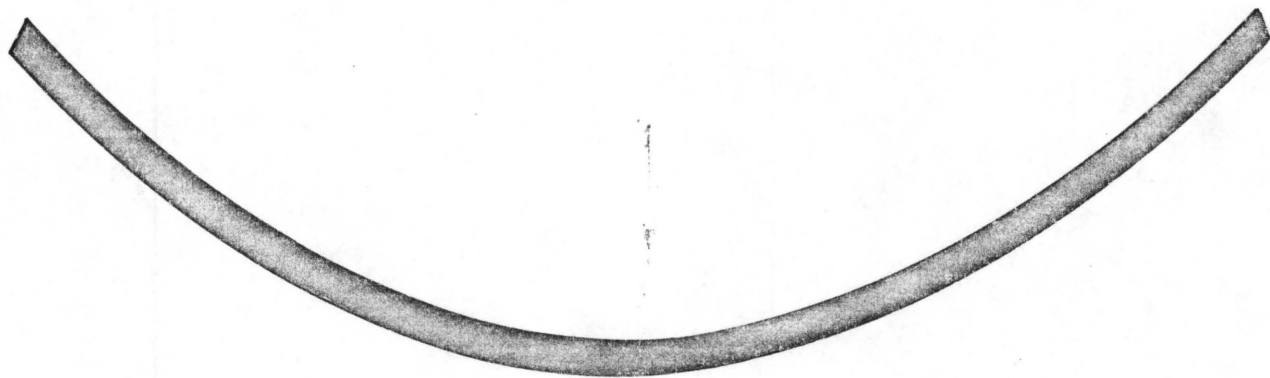
MANAGEMENT
LABOR
LAND
CAPITAL

THESE ARE SCARCE AND VALUABLE RESOURCES.
THEY REPRESENT ANY PRODUCER'S (SELLER'S)
NOTION OF:

MARKET VALUE

BECAUSE THEY COST THE SELLER, HE WANTS
TO BE PAID BACK AT LEAST WHAT THEY COST

IN MARKET VALUE



ONLY THINGS THAT ARE SCARCE AND USEFUL HAVE VALUE TO THEIR CONSUMERS.

ALL MAN-MADE THINGS OF ANY KIND OR DESCRIPTION HAVE VALUE TO CONSUMERS BECAUSE THEY REPRESENT A PACKAGE OF FOUR CATEGORIES OF USEFULNESS.

FORM

TIME

PLACE

POSSESSION

ONLY THESE FOUR WAYS DOES ANY CONSUMER FIND ANY USEFULNESS IN ANY SCARCE GOODS OR SERVICES OF WHATEVER KIND AND DESCRIPTION.

AUTOMOBILES

AIRPLANES

HAIRCUTS

OFFICE SPACE

STEAKS

SO THESE, TOO, ARE SCARCE AND VALUABLE
RESOURCES.

THEY REPRESENT ANY BUYER'S NOTION OF:

MARKET VALUE

FORM
TIME
PLACE
POSSESSION

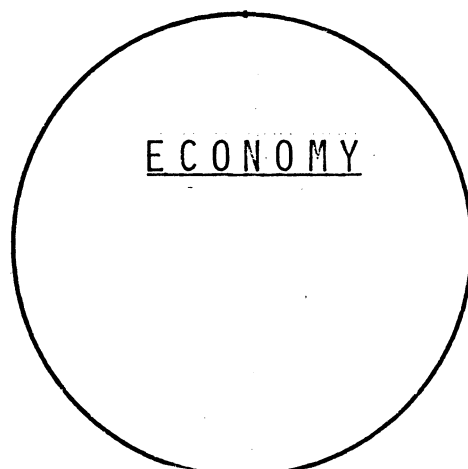
AND BUYERS WANT TO PAY NO MORE THAN
IS NECESSARY TO GET THEM IN:

MARKET VALUE

NOW A SOCIETY ALWAYS, IN THE FINAL
ANALYSIS, IS HELD TOGETHER BY BONDS
OF EQUITY (FAIRNESS) AMONG ITS MEMBERS.



SOCIETY



AN ECONOMY IS AN IMPORTANT PART OF A
SOCIETY (LIKE A WATCH MAINSPRING). IT IS
NOT SURPRISING THAT SOCIETIES EXPECT
EQUITABLE (FAIR) PERFORMANCE FROM THEIR
ECONOMIES.

BUT ECONOMIC PERFORMANCE , AS WE HAVE
SEEN , IS NOT ALWAYS FAIR AND FLAWLESS .

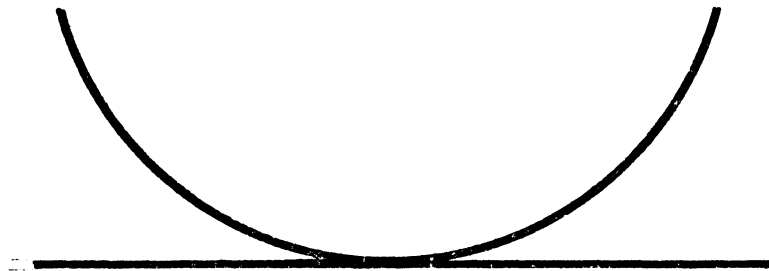
IT CAN MAKE MISTAKES :

- INNOCENTLY

- INTENTIONALLY

WE NEED SOME GUIDELINES TO AID
SOCIETY IN LEADING ECONOMY TOWARD FAIR

MARKET PERFORMANCE



WHAT GUIDELINES DO WE NEED TO ASSURE
THIS DESIRABLE KIND OF PERFORMANCE?

WELL, WE NEED ONLY 8 THINGS:

1

2

3

4

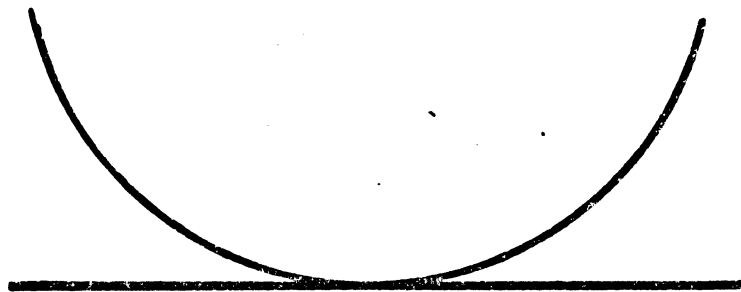
5

6

7

8

IF ALL 8 OF THESE THINGS EXIST, THEN
FAIR ECONOMIC PERFORMANCE WOULD ALWAYS
OCCUR IN THE MARKET.



ALWAYS

1. MANY BUYERS AND SELLERS
2. FREE ENTRY AND EXIT IN THE MARKET
3. NO IMAGINARY PRODUCT DIFFERENCES
4. EACH FREE FROM COERCION BY OTHERS
5. NO INDIVIDUAL EFFECTS PRICE

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6. PERFECT KNOWLEDGE (INFORMATION)
7. PERFECT ECONOMIC OBJECTIVITY
8. PERFECT MOBILITY (ABILITY TO RESPOND)

(THEY DON'T ALL EXIST, DO THEY?)

THAT THESE 8 THINGS DO NOT ALL EXIST
DOES NOT MAKE THEM UNIMPORTANT. IT MAKES
THEM EVEN MORE IMPORTANT.

THEY ARE IMPORTANT BECAUSE ANY AND ALL
CONDITIONS OF UNFAIR MARKET PERFORMANCE
OCCUR ALWAYS THROUGH THE ABSENCE OF
ONE OR MORE OF THESE 8 THINGS.

ANY UNFAIR MARKET PERFORMANCE YOU CAN
IMAGINE OR YOU EVER HEARD OF IS ALWAYS
TRACEABLE TO THE ABSENCE OF SOMETHING(S)
IN THAT LIST.

HENCE, IMPERFECTIONS OCCUR BECAUSE OF:

INADEQUATE INFORMATION

INABILITY TO RESPOND

LACK OF GOOD SENSE

SUCCESSFUL PRODUCT DIFFERENTIATION

- ADVERTISING
- PROMOTION
- MERCHANDISING
- MOTIVATION RESEARCH

TOO FEW BUYERS

TOO FEW SELLERS

MARKET POWER

ENTRY OR EXIT BARRIERS

- POWER
- PATENTS
- LICENSES
- TECHNICAL SKILL
- SIZE AND COST REQUIREMENTS

AND PROBABLY OTHERS

AND WHEREVER THESE CONDITIONS OCCUR,
THEY BEGAN AND NOW PERSIST BASICALLY--

IN A DIFFERENCE
IN MARKET INTELLIGENCE
AMONG THE PARTICIPANTS.

YOUR JOB IS A SOCIAL RESPONSIBILITY.
IT IS TO MINIMIZE THESE DIFFERENCES.

HOW DO YOU HELP --

MAINTAIN MANY SELLERS?

MAINTAIN MANY BUYERS?

LOWER ENTRY BARRIERS?

KEEP PEOPLE INFORMED?

HELP PEOPLE RESPOND?

MINIMIZE IGNORANT ACTIONS?

MAINTAIN PRODUCT STANDARDIZATION?

REDUCE MEANINGLESS DIFFERENTIATION?

COMBAT MISLEADING ADVERTISING?

BALANCE MARKET POWER?

YOU'VE HEARD THE OLD EXPRESSION:

"WHEN I WANT ADVICE

I'LL ASK AN EXPERT."

SO YOU TELL ME, BECAUSE I WANT TO
KNOW FROM THE EXPERTS:

"WHERE ARE THE GAPS
IN MARKET INTELLIGENCE? "